This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SANTO DOMINGO 003978

SIPDIS

PRIORITY

DEPT FOR WHA/CAR (SEARBY), WHA/EPSC, EB/IFD/OMA,
EB/TPP/BTA/EWH (MATTHEWMAN); DPET PASS TO USTR RVARGO,
AMALITO; TREASURY FOR WAFER

E.O. 12958: N/A
TAGS: DR EFIN ETRD PGOV
SUBJECT: DOMINICAN TAX REFORM DRAWS NEAR

¶1. (U) The Dominican Technical Secretary,s office announced yesterday that government and industry has reached preliminary agreement on a fiscal reform package, tied to ratification of DR-CAFTA. If accurate, this clears the way for Congress to consider and approve both pieces of legislation as early as the week of August 16. Active CAFTA Intermediary Monsignor Agripino Nunez Collado telephoned Charge yesterday afternoon to inform the Embassy in advance of the Technical Secretary,s public announcement, carried on today,s front pages of most major dailies.

¶2. (U) After months of discussion and intense negotiations in recent weeks, the government and private sector paved the way to fiscal reform by agreeing to various taxes that will help compensate for the RD$ 31.1 billion in government revenues expected to disappear when CAFTA is implemented.

¶3. (U) Included in the plan is a broadening of the product base currently subject to value added tax (ITEBIS), by some 200 products. Generally not included in the amplified list are items from the basic goods basket such as medicine, education and a variety of food items. However, the reform does call for including some basic food items such as sugar, coffee and cooking oil, a decision that is already eliciting a negative response from the public

¶4. (U) The reform as planned would recoup some RD$27.2 billion, leaving the government RD$4 billion or US$140 million short. Of the 27 billion in new revenues, major sources include 11.5 billion calculated to come from the broadened ITEBIS base, 6 billion from new taxes on petroleum, 3.6 billion from a new 15 percent car licensing tax, 2.4 billion from alcohol and cigarettes, and 2 billion from increased income tax revenues for those individuals or corporations earning more than RD$900,000 (US$31,000) annually. The highest income tax rate is now 25 percent, which would be raised to 28 percent under the new plan.

¶5. (U) Even RD$ 4 billion short as it is, to take effect Congress must still approve the planned tax reform. While the press is referring to this as an agreement on fiscal reform, what was announced yesterday was only a plan for tax reform. There is still no announced plan from the government on reductions in spending. Presumably, it will be these reductions that will make up the RD$4 billion difference.
MEIGS